

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 IO-13 ISO-00 SSO-00 NSCE-00 INRE-00
ICAE-00 AID-05 CEA-01 CIAE-00 COME-00 EA-10
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TRSE-00 LAB-04 SIL-01 AGRE-00 OMB-01 SS-15 STR-07
L-03 /109 W

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O 241426Z JUL 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC IMMEDIATE 5208
ALL OECD CAPITALS
AMEMBASSY BRUSSELS
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PASS EB/ICD

E.O. 11652: N/A
TAGS: ETRD, OECD
SUBJECT: COMMON FUND (CF): MEETING OF OECD AD HOC
GROUP: JULY 20-21
1. SUMMARY: OECD AD HOC GROUP'S CONTINUED DISCUSSIONS
OF MANAGEMENT AND VOTING ISSUES REVEALED FAIR DEGREE
OF CONSENSUS ON BASIC STRUCTURE OF DECISION MAKING
AND LIKELY ROLE OF EXECUTIVE BOARD AND OTHER BODIES.
ON VOTING, PREFERENCE SEEMS TO BE DEVELOPING FOR MUL-
TIPLE (E.G. ICA VOTES, FINANCIAL STAKE IN ICAS,
TRADE SHARES) RATHER THAN SINGLE CRITERIA FOR WEIGHT-
ING INDIVIDUAL COUNTRY VOTING RIGHTS. DEBATE ON
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CAPITAL STRUCTURE ISSUES INDICATED THAT AFTER THEIR
OWN DISCUSSIONS WITH BANKERS MAJOR COUNTRY DELS
CONTINUE TO FIND GROUP B CONCEPT OF CF FINANCIALLY
VIABLE, ALTHOUGH MOST OTHER THAN US WOULD DISCOUNT
VALUE OF STOCK WARRANTS AS COLLATERAL BY MORE THAN
50 PER CENT. ON DEPOSIT/CREDIT RATIO, VIEWS IN
GROUP ON WHERE FINAL COMPROMISE MAY LIE RANGE FROM

SOMEWHAT LESS TO RATHER MORE THAN 50/50 HINTED AT BY FRENCH, AND POTENTIAL FOR EVENTUAL CONVERGENCE ON THIS ISSUE SEEMS GOOD. QUESTION OF DIRECT CONTRIBUTIONS GAVE RISE TO MOST SPIRITED EXCHANGE, AS UK, US, FRG, AND FRANCE MADE STRONG CASE AGAINST VARIOUS PROPOSED RATIONALES FOR DIRECT CASH CONTRIBUTIONS. JAPAN DID NOT ADDRESS THIS POINT, BUT INDICATED GOJ HAD DONE GOOD DEAL OF THINKING ABOUT OPTIONS OPEN IF IT DECIDED TO CONTRIBUTE. AD HOC GROUP WILL MEET AGAIN ON SEPTEMBER 21, JUST BEFORE MEETING OF HIGH LEVEL GROUP ON COMMODITIES. END SUMMARY.

2. MANAGEMENT AND VOTING. DISCUSSION REVEALED VIRTUALLY ALL DELS VIEW 3 TIERED DECISION MAKING STRUCTURE (GENERAL ASSEMBLY, RESTRICTED MEMBERSHIP EXECUTIVE BOARD ELECTED BY ASSEMBLY, AND PROFESSIONAL MANAGEMENT TEAM APPOINTED BY BOARD) AS POINT OF DEPARTURE IN THEIR THINKING ON THIS ISSUE. OTHER DELS SHOWED CONSIDERABLE INTEREST AND BROAD SUPPORT FOR US PRESENTATION WHICH OUTLINED PRELIMINARY THINKING ON FUNCTIONS OF THE THREE LEVELS AND PROPOSED EXECUTIVE BOARD FOLLOW PRINCIPLE OF SOME IFIS AND HAVE MAJOR COUNTRIES AS PERMANENT MEMBERS WITH ROTATING SYSTEM OF CONSTITUENCIES FOR OTHERS. SEVERAL DELS MADE POINT THAT MANAGEMENT OF CF WOULD LIMITED OFFICIAL USE

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HAVE TO REACT QUICKLY AND CONFIDENTIALLY, SO THAT EXECUTIVE BOARD WOULD HAVE TO BE PROFESSIONALLY ORIENTED AND SERVE MAINLY AN OVERSIGHT FUNCTION (AS WELL AS INSULATE MANAGEMENT FROM COUNTRY INTERESTS OF ASSEMBLY) RATHER THAN TAKE DECISIONS ITSELF, AND PRESUMABLY WOULD NORMALLY WORK WITHOUT VOTING.

3. GROUP ALSO VIEWED ISSUE OF WEIGHTS FOR VOTING, WITH US AND A NUMBER OF OTHER EXPRESSING VIEW THAT MULTIPLE SYSTEM OF WEIGHTING (TRADE VOTES IN ICAS, FINANCIAL INPUT, ETC), MIGHT WELL

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BE DESIRABLE TO SAFEGUARD GROUP B INTERESTS (E.G. EAST BLOC HAS SIGNIFICANT TRADE WEIGHT BUT OFTEN NO FINANCIAL STAKE, OPEC MIGHT HAVE FINANCIAL STAKE BUT NO TRADE INTEREST). DISCUSSION OF USING FINANCIAL WEIGHTS RESULTED IN CONCERN BY SOME DELS ABOUT "BUYING" OF VOTES BY OPEC. US SUGGESTED SOME BUYING OF VOTES VIA CONTRIBUTIONS MIGHT BE ACCEPTABLE IF STRICTLY LIMITED. EC COMMISSION AND JAPAN SAID IN THEIR VIEW ONLY ASSESSED, AND NOT VOLUNTARY CONTRIBUTIONS SHOULD GIVE ANY VOTING RIGHTS. WHILE PROSPECT OF HEAVY OPEC CONTRIBUTIONS TO CF WAS NOT CONSIDERED LIKELY BY MANY, FRENCH DEL REPORTED THAT AT RECENT DAC-ARAB AID DONORS MEETING HEAD OF OPEC SPECIAL FUND HAD ASKED RHETORICALLY WHETHER IFAD 50/50 FUNDING PRINCIPLE MIGHT BE APPLIED TO CF.

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4. CAPITAL STRUCTURE: TAKING OFF FROM NORWEGIAN REMINDER THAT BANKERS HAD TOLD UNCTAD SECGEN THAT 25/75 DEPOSIT/CREDIT RATIO FOR CF WAS REASONABLE AND EQUITY CAPITAL DESIRABLE, NUMBER OF DELS GAVE THEIR VIEWS ON THESE ISSUES. US NOTED ITS DISCUSSIONS WITH BANKS SHOWED GROUP B PROPOSAL HIGHLY BANKABLE, ESPECIALLY IN CONNECTION WITH COM-

COMMITMENT TO JOINT FINANCING OF ICA'S, THAT NO EQUITY CAPITAL WAS NEEDED, AND THAT 50 DISCOUNTING OF STOCK WARRANTS AND CALLABLE CAPITAL WAS PRUDENT. UK STATED ITS BANKERS ALSO SAW NO NEED FOR EQUITY CAPITAL, AND URGED GROUP B MAKE IT CLEAR TO COREA THE VERY SERIOUS PROBLEMS MEMBERS HAVE WITH DIRECT CONTRIBUTIONS TO CF. FRG SAID BANKER IT HAD CONSULTED (WHO HAD BEEN AT UNCTAD INFORMAL MEETING) ALSO THOUGHT NO EQUITY CAPITAL WAS NECESSARY. FRG INDICATED, HOWEVER, THAT STOCK WARRANTS WERE CONSIDERED NEARLY WORTHLESS, AND JAPAN, UK, AND FRANCE THOUGHT THEY SHOULD BE SEVERELY DISCOUNTED, AT LEAST FOR AGRICULTURAL PRODUCTS. DANES SUGGESTED WARRANTS PLEDGED TO CF COULD NEVER REALLY BE LIQUIDATED IN CASE OF DEFAULT BECAUSE OF EFFECT THIS WOULD HAVE ON MARKETS AND PRODUCTION SYSTEM OF COMMODITY IN QUESTION. CHAIRMAN NOTED THAT WARRANTS WERE IN PRACTICE USED AS COLLATERAL WITHOUT PROBLEMS, AND US MADE CASE THAT 50 DISCOUNTING WAS PROBABLY MORE THAN PRUDENT IN MOST CASES.

5. REGARDING POSSIBLE GROUP B LEEWAY ON DEPOSIT/ CREDIT RATIO, FRENCH, JAPANESE, AND UK HINTED THAT GROUP B BOTTOM LINE MIGHT BE 50/50. FRG THOUGHT THIS TOO LOW BECAUSE OF HIGH COLLATERAL NEEDED AND INTEREST COSTS OF BORROWING NECESSARY LIMITED OFFICIAL USE

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AT THIS RATIO. SWEDES, HOWEVER, THOUGHT 40 LIKELY TO RESULT IN ZERO NET CASE POSITION IN CF ON AVERAGE OVER TIME AND THUS WAS PROBABLY AT HIGH END OF SCALE. SECRETARIAT INDICATED CALCULATIONS IT HAD MADE ALSO SUGGESTED 40/60 RATIO WOULD BE COSTLESS OVER TIME, BUT EMPHASIZED SENSITIVITY OF THIS CONCLUSION TO NUMEROUS HYPOTHESES MADE. US, FRENCH AND UK EXPRESSED SKEPTICISM AT THIS RESULT. NUMBER OF DELS THOUGHT IT WOULD BE USEFUL FOR SECRETARIAT TO CIRCULATE SUMMARY OF WORK IT HAD DONE FOR EVALUATION IN CAPITALS.

6. ON SUBSIDIARY ISSUE OF WHETHER DEPOSIT/CREDIT RATIO COULD VARY AMONG ICA'S, GROUP AGREED IT MUST BE SAME FOR ALL. FRANCE, UK, AND AUSTRALIA, HOWEVER, URGED DOOR BE LEFT OPEN TO CONSIDER DIFFERENT MINIMUM DEPOSIT REQUIREMENTS FOR DIFFERENT ICAS,

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SUGGESTING FOR EXAMPLE THAT UNDER A 50/50 RATIO
AN ICA COULD DEPOSIT 30 AND BE ABLE TO BORROW
ANOTHER 30. OBJECTIVE OF THIS APPROACH WOULD BE
TO ALLOW FOR SOME DIVERSITY IN WAY FUTURE ICAS WERE
NEGOTIATED.

7. GROUP ALSO TOOK UP QUESTION OF RATIONALE FOR
DIRECT CONTRIBUTIONS. UK DEMOLISHED ARGUMENTS
IN LATEST COREA INFORMAL PAPER ONE-BY-ONE, NOTING
NONE OF THEM JUSTIFIED CASH CONTRIBUTIONS AND
STRONGLY OPPOSING NOTION OF POSSIBLE INTEREST
SUBSIDIES. FRENCH TOOK SAME LINE, WHILE LEAVING
DOOR SOMEWHAT MORE Ajar RE POSSIBILITY OF
DIRECT GUARANTEES RATHER THAN CASH. FRENCH, FRG,
AND US ALL NOTED THAT MAJOR PURPOSE OF \$500 MILLION
EQUITY CAPITAL PROPOSED BY COREA APPEARED TO BE
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INTERVENTION TO STOCK COMMODITIES WHERE NO ICA
EXISTED,

WHICH WAS NOT ACCEPTABLE. US SUGGESTED TWO POSSIBLE CASES WHERE CF MIGHT NEED CONTINGENCY RESOURCES -- DEFAULT OF AN ICA MEMBER GOVERNMENT ON ITS OBLIGATIONS FOR CALLABLE CAPITAL (WHICH 50 DISCOUNT OF THIS CAPITAL SHOULD COVER ADEQUATELY) AND WORLD-WIDE RECESSION ACCOMPANIED BY A COMMODITY PRICE BUST (FOR WHICH UP FRONT CASH CONTRIBUTION WAS NOT THE ANSWER).

8. SWEDES CONTENTED THEMSELVES WITH NOTING THAT EQUITY CAPITAL TO SERVE AS LOAN SECURITY WAS NOT INCONSISTENT WITH POOLING TYPE CF. DANES TRIED TO ARGUE THAT DIRECT CONTRIBUTIONS WOULD BE CHEAPER THAN OTHER WAYS OF ENHANCING CF CREDITWORTHINESS. DUTCH ASKED GROUP TO LOOK AT QUESTION THE OTHER WAY AROUND AND ACCEPT DIRECT CONTRIBUTION IF THEY WERE NOT TOTALLY UNWISE, RATHER THAN INSIST THAT THEIR NECESSITY BE DEMONSTRATED.

9. JAPANESE REP DID NOT ADDRESS ISSUE OF RATIONALE. CAREFULLY NOTING GOJ HAD MADE NO POLITICAL DECISION RE DIRECT CONTRIBUTIONS, HE WENT ON TO SAY A) \$500 MILLION WAS OUT OF QUESTION BUT GOJ HAD OPTIONS FOR SMALLER, SYMBOLIC AMOUNT B) USE OF UN CONTRIBUTION FORMULA WOULD BE GOOD WAY TO GET GROUP D (EAST) AND CHINA TO PAY FAIR SHARE OF CF, AND E) CONTRIBUTION MUST BE KEPT INTACT AND NOT USED FOR LENDING.
SALZMAN

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